

PHASE III GOVERNMENTS—ARE YOU THERE YET?

By Jerry Funk, CPA

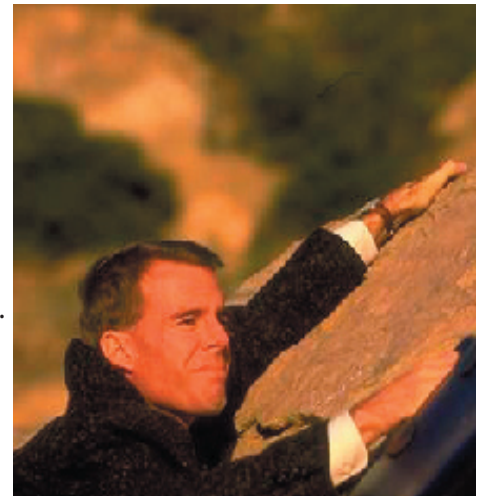
The day many smaller governments with March and April year ends have been dreading is finally here—the day their government is required to implement GASB Statement 34. The effective date of the statement for Phase III governments is for fiscal years beginning after June 15, 2003. Therefore, all governments with fiscal years ending after June 2004 now need to have their financial statements prepared in accordance with GASB 34.

There is some good news for Phase III entities. Cash basis financial statements will continue to be an acceptable “other comprehensive basis of accounting” and the infrastructure reporting can be prospective. If your financial statements are prepared on the cash basis, the financial statements should still include all of the new GASB 34 components including Management Discussion and Analysis (MD&A), Government Wide Financial Statements, Fund Financial Statements. Fixed assets **and** infrastructure need to be included in the financial statements also. By electing to prospectively report infrastructure, you do not have to go back and find the historical cost of your roads, bridges, sidewalks, parking lots, etc. Smaller governments without debt should consider electing this treatment for their infrastructure. However, if your governmental unit has issued debt to pay for **infrastructure** assets, you may want to consider obtaining the historical cost of the infrastructure to avoid a large negative net asset figure on the government-wide financial statements. It should be emphasized that this prospective reporting is only available for infrastructure assets and **not** general fixed assets. All active fixed assets such as buildings, equipment and vehicles of the government need to be included in the financial statements regardless of when purchased. Governmental units that have implemented the new reporting model early, highly recommend to begin the accumulation of data for fixed assets as soon as possible and not wait until the fiscal year of implementation is over.

Another area to consider prior to the auditors coming to conduct the audit, is who will be writing the MD&A. There are a number of required components to the MD&A which have been communicated in past issues.

A number of examples of early implementer’s reports are included on the GASB website www.gasb.org.

We are available to discuss these implementation issues and answer any questions you may have. Please feel free to call one of our offices or visit our website at lcvcpa.com.



MILEAGE RATE JUMPS IN '05

As of January 1, 2005, the standard mileage rates allowed by the IRS increased. The new rate for 2005 is 40.5 cents per mile, up from 37.5 in 2004. This increase is the largest single year increase ever proposed by the IRS. This rate is the **maximum**



rate that can be reimbursed to employees for mileage driven for business purposes. If a higher rate is used for reimbursement, the additional reimbursement would be subject to employment taxes.

WHAT HAS THE GASB BEEN UP TO LATELY?

By Jerry Funk, CPA

The statements are now up to GASB 46, just issued in December, 2004.

Following is a brief overview of the most recent statements.

GASB 40

This statement is an amendment of GASB 3 and addresses deposit and investment risk disclosures. The statement addresses common deposit and investment risks related to credit risk, interest rate risk, concentration of credit risk and foreign currency risk, and modifies the custodial credit risk disclosure requirements for deposits and investments. This statement does not change the required disclosures for authorized investments and the reporting for certain repurchase agreements. The board believes that these changes will provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. The requirements of the statement are effective for periods beginning after June 15, 2004.

GASB 41

This statement once again amends components of GASB 34. The amendment clarifies the budgetary presentation requirements for governments with significant budgetary perspective differences that result in their not being able to present the required budgetary comparison information for their general and major special revenue funds. Concerns had been expressed by governments whose budget structure was not based on a GAAP fund

structure. For such governments, the budgetary comparisons should be presented based on the fund, organization, or program structure used for its legally adopted budget. This statement should be implemented simultaneously with statement 34.

GASB 42

This statement establishes the accounting and reporting standards for impairment of capital assets. A capital asset is considered impaired when its service life has declined significantly and unexpectedly. The statement also clarifies the requirements for insurance recoveries. Capital assets considered impaired that will no longer be used by the governmental unit should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service life of the asset. Impaired capital assets with physical damage generally should be measured using the approach that estimates the cost to restore the asset with the remaining portion of historical cost written off. Impaired capital assets due to enactment of laws or regulations, environmental factors or technological changes or obsolescence generally should be measured using a service units approach which compares the service units provided by the asset before and after impairment. An insurance recovery associated with events or changes in circumstances resulting in an impairment of a capital asset should be netted with the impairment loss. The provisions of the statement are effective for fiscal periods beginning after December 15, 2004.

GASB 43 and 45

These statements establish uniform reporting standards for other postemployment benefits and

supercedes the guidance issued in GASB 26. Many governments provide such benefits as part of a total compensation package to attract and retain good employees. Such benefits include postemployment healthcare or life insurance. The statement is effective in various phases similar to the implementation of GASB 34. The effective dates for these statements are based on the revenues of the sole or largest employer similar to the implementation of GASB 34. The dates range from periods beginning after December 15, 2005 through periods beginning after December 15, 2008.



GASB 44

This statement amends portions of NCGA 1 that established guidelines to the statistical section of a comprehensive annual financial report (CAFR). The statistical section is a required part of a CAFR, although governments are not required to prepare a statistical section if they do not present their basic financial statements within a CAFR. This remains the same under the new statement. However, this statement does apply to any statistical information that accompanies a government's basic financial statements. The statement deals with comparability issues with the adoption of GASB 34 and

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COUNTY COST STUDIES PROVIDE VALUABLE INFORMATION AS WELL AS A NEW-FOUND REVENUE STREAM

By Leon Heires, CPA

The cost of providing services by a county government is financed through federal, state or local sources. Local sources primarily consist of real estate taxes or user fees or both. There has long been a debate about whether the cost of government services should be shared equally by all through a mechanism such as real estate taxes, or whether it should be a fee-based system for those that primarily use the service or a combination of both. In addition, some counties are now facing the maximum limited tax rates for their operating funds that are precluding them from obtaining additional local revenue. They are finding that they need an additional source of revenue to finance their operations, such as user fees.

Fee cost studies are a way in which county governments can examine the actual costs, direct, indirect or both, of providing certain services to the public. With the ever-increasing costs of health insurance, pensions, wages and other economic variables, counties need to evaluate their existing fee schedules and make decisions that will put things back in order. In addition, fee cost studies may even provide a new-found revenue opportunity.

Fee legislation affecting County Clerks/Recorders (including Geographic Information System's (GIS)) and Sheriffs for Class I and II counties (i.e., all counties but Cook) are included in Chapter 55 of the Illinois Compiled Statutes. County Clerks are covered under section 5/4-4001; Recorders and GIS are under section 5/3-5018; and Sheriffs under section 5/4-5001.

Under these laws, the State Statutes set the maximum fee levels for various services. However, it allows counties to conduct fee studies and raise fees as high as actual costs, if the full cost of the service exceeds the statutory fee. Direct and indirect actual costs must be determined in accordance with the provisions of the United States Office of Management and Budget Circular A-87.

Fee studies can be customized to meet the needs of the individual county. The study can be limited to only direct costs, and/or can be limited to specific departments or fees. We recommend studying only those specific services that have enough volume to warrant the expense of cost studies.

The several fee studies we have conducted over the past few years have indicated that a majority of the statutory fees are understated in terms of the cost of providing those services. In some instances, we have found that even the statutory fees weren't being charged by the county government for services performed. With the information derived from the cost reports, county boards have the ability to raise certain fees from the current statutory level up to a maximum of the actual cost as determined by the study. For those counties that have been willing to raise their existing fees to the allowable levels, significant additional revenues have been generated to fund government operations. These are not one-time revenues but rather ongoing annual sources of revenue. Finally, the payback for the cost of the study has been very rapid for the county governments.



Consider a Fee Cost Study to provide you with information that will enable you to make intelligent decisions about your current fee structure. With our extensive knowledge of County accounting systems, personnel, and operations, we will take a personal interest in the success of your County.



Lindgren, Callihan, Van Osdol & Co., Ltd. is one of the leading regional accounting firms in Northern Illinois, providing services to over 7,000 governmental, financial, industrial, commercial, and individual clients. The firm employs more than 120 professionals, including 20 officers and over 65 CPAs with offices located in Freeport, Rockford, Sterling, Dixon and Mendota.

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ARE YOU PAYING USE TAX ON NATURAL GAS?

By Greg Dunham, CPA

Effective for natural gas bills issued on or after October 1, 2003, the State of Illinois began imposing a Gas Use Tax on the purchase of natural gas from outside of Illinois, that is used or consumed in Illinois.

The delivering supplier is responsible for charging, collecting and paying the Gas Use tax to the State.

Exemptions are available in a number of situations. First and foremost are governmental bodies or entities operated and organized exclusively for charitable, religious, or educational purposes who have been issued a tax exemption identification number by the Illinois Department of Revenue (an "E Number").

In order to get the exemption, affected governmental entities must complete form RG-61, "Gas Use Tax Exemption Certificate". This certificate is then given to the out-of-state supplier. Please note that you will need to indicate on the form your "E Number". All governmental bodies should have received this number from the Illinois Department of Revenue. If you don't believe you have been issued this number or cannot find it, contact the Illinois Department of Revenue in Springfield at 217-782-8881.

If you believe you are an affected governmental body and need assistance or would like form RG-61, please contact anyone in one of our offices.

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establishes the objectives of the statistical section and the five categories of information it should contain. It is effective for periods beginning after June 15, 2005.

GASB 46

(Yet another amendment to GASB 34). This statement was issued to help governments determine and report when net assets have been restricted to a particular use by the passage of enabling legislation. A government's net assets should be reported as restricted when the purpose for or manner in which they can be used is limited by an outside party or enabling legislation. Enabling legislation is legislation that authorizes the raising of new revenue sources and imposes restrictions on how the revenues may be used. The statement is effective for periods beginning after June 15, 2005.

GOV SURFING...

<http://travel.state.gov>

US Department of State info on topics such as the Tsunami relief, travel alerts, press and public affairs.

<http://www.noaa.gov>

National Oceanic and Atmospheric Administration site has links for the National Weather Service, research, climate data, charting and navigation.

<http://www.iasb.com>

Illinois Association of School Boards—current news, meeting minutes, election info and links to directories.

<http://www.ustreas.gov>

links to report fraud, income tax status, small business topics and money management.

